Tree Island Wire Income Fund | Annual Report to Unitholders | 2005

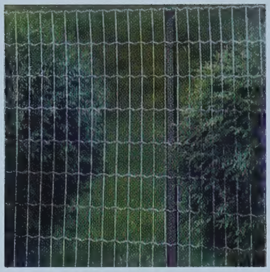
There's considerably more

to Tree Island than just nails.

Tree Island may be best known for nails, in part because of our success in the retail and professional marketplace. Walk into any RONA or Home Depot store in Canada, and you'll see row upon row of top-quality Tree Island nails lining the shelves. But here's something you may not realize – nails represent only about one third of our business. The balance comes from a diverse range of products that have an even more diverse range of end uses:




- bright wire used in products like mattresses, upholstered furniture, gravel screens, cotton baling wire, and more
- galvanized wire used to tie pulp bales, tie bales of recycled material, and to produce chain link fencing
- stainless steel wire used in everything from spray pump bottles, to sprinkler system springs to car antennas as well as a variety of industrial applications
- galvanized netting for stucco reinforcing
- welded wire mesh for concrete reinforcing
- and a variety of fencing products

And nails? Here, too, we've achieved significant diversification. Our collated nails for pneumatic guns are used primarily in wood frame residential housing construction. Our bulk nails are used in both residential and commercial construction. And our packaged nails are used almost exclusively in renovations. Because each of these construction markets has different demand cycles, the end result is remarkable stability.

Diversification. It's just one more point of difference that sets Tree Island apart.

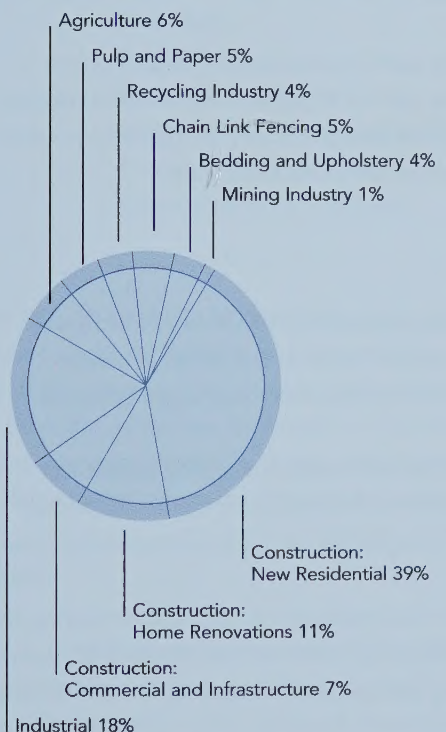
# Performance Highlights

- Generated $1.57 per unit in distributable cash and declared distributions of $1.50 per unit.
- Substantially completed the physical consolidation of two of our US production facilities. This will provide significant savings in 2006

*(thousands of dollars except per unit amounts)*

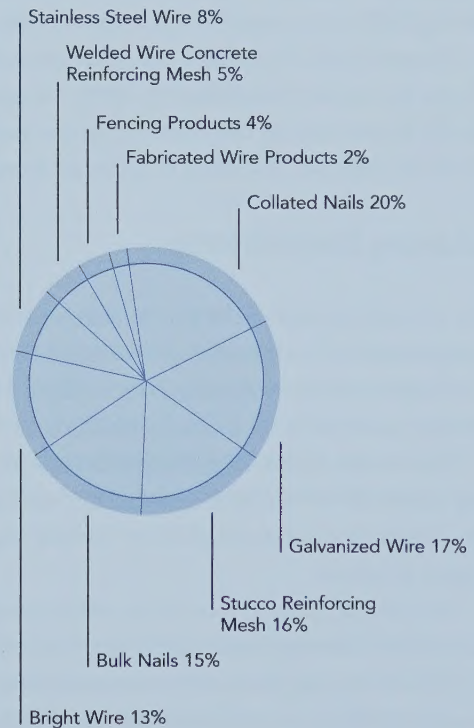
| 12 Months Ended December 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| **Sales volumes - tons** | **263,695** | **302,677** | **297,886** |
| **Sales** | **$ 336,572** | **$ 383,284** | **$ 299,100** |
| **Net income** | **19,406** | **36,492** | **13,031** |
| **Basic and diluted net income per unit** | **0.89** | **1.94** | **0.79** |
| **Distributable cash generated per unit** | **1.568** | **2.884** | **1.444** |
| **Distributions paid or payable per unit** | **1.500** | **1.350** | **1.275** |

## $ Sales % by Industry Segment




*Note: The breakdown of sales by type of construction is based on Company estimates.*

## $ Sales % by Product Group



# To Our Unitholders

The only trouble with a record-breaking year is that the eventual return to more typical results is bound to disappoint. Such was the case in 2005, when the financial results we achieved were solid by historical standards, but significantly below the extraordinary numbers achieved the year before.

Our 2005 results were particularly solid when viewed in the context of market conditions. While end-user demand for wire products remained steady through the year, purchases by retailers and distributors slowed as these customers worked to reduce inventories built up in 2004 in response to price and availability concerns. Increased import competition unfavourably affected results in our nail and industrial wire segments. With approximately 76% of our sales in the United States, the 7.8% increase in value of the Canadian dollar during 2005 had a negative influence on sales.

Despite these challenges, we again exceeded our distributable cash requirements in 2005. For the 12 months ended December 31, 2005, we generated distributable cash of $1.57 per unit, which exceeded the $1.50 per unit we declared during the year. Of this, $1.24 per unit was generated by operations, while $0.33 per unit was the result of gains on foreign exchange conversion activities, net of tax.

## Enhancing Competitiveness

For Tree Island, one of the year's most important achievements was responding effectively to increased competition from offshore manufacturers. Import products have been a factor in the North American marketplace for over 25 years, but in 2005, volumes were higher and pricing was more aggressive than normal, particularly for products produced in China.

Tree Island enjoys a significant advantage over these products when it comes to quality, availability and customer service, and during 2005, we focused on customers for whom these attributes are critical. We trimmed prices strategically to defend market share, but did not give up our traditional premium over import products.

The consolidation of our US operations helped to improve our customer service and support during the year, while lowering costs. Upgrades to our wire mesh and galvanized nail facilities in Richmond, BC were also undertaken during the year to further enhance our product quality and product diversification. Continually improving efficiency enhanced our competitiveness.

Product diversification is a key component of our competitive strategy. Tree Island has nine major product groups:

| Product Group | Percentage of Net Sales |
|---|---|
| Collated Nails | 20% |
| Galvanized Wire | 17% |
| Stucco Reinforcing Mesh | 16% |
| Bulk Nails | 15% |
| Bright Wire | 13% |
| Stainless Steel Wire | 8% |
| Welded Wire Concrete Reinforcing Mesh | 5% |
| Fencing Products | 4% |
| Fabricated Wire Products | 2% |
| | 100% |

these include products ranging from agricultural and security fencing to the wire used to make springs for inground sprinkler systems and car antennas. Nails, our largest product segment, represent only about one third of our revenue. Our diverse product line up makes us one of North America's best one-stop shops for wire products, while also balancing our exposure to any one industry or market. In 2005, for example, products such as concrete reinforcing mesh, stucco reinforcing mesh and stainless steel wire, enjoyed strong demand and relatively little import competition, helping to offset declines in our nail and industrial wire segments.

## Outlook

Looking ahead, we anticipate demand for wire products will remain stable in 2006. Although housing starts are projected to decline by 7.4% in Canada (according to Canada Mortgage and Housing Corp.) and 6.3% in the US (according to the National Association of Home Builders), the resulting activity should still be at historically high levels. In addition, the home renovation market in the US is forecast to grow by 5.6%

*Left: Ted Leja, President and CEO Tree Island Industries Ltd. and Trustee of the Fund*
*Right: Rod Senft, Chairman of the Board of Trustees.*

(according to the National Association of Home Builders) and the non-residential construction market in the US is expected to grow by 4.7% (according to the American Institute of Architects). We estimate that approximately 39% of our sales are related to new home construction, 11% are related to home renovations and 7% to commercial and infrastructure construction.

Following 2004's inventory build up and the subsequent inventory correction in 2005, we anticipate that customer buying habits will more closely align with end-user demand in 2006. Customer inventories are currently close to appropriate levels and purchasing activity is stable and regular.

While import competition in the nail and industrial wire segments is expected to remain a factor, Tree Island will continue to respond with enhanced differentiation (ie: quality, service and availability), diversification and steady increases in efficiency.

We are pleased to report our US consolidation project was completed on time and on budget in February 2006, and is now delivering significant savings in leasing, power and employment costs. At our Canadian operations, the upgrade to our welded reinforcing mesh facility and the installation of the hot dip nail galvanizing facility are also on track for completion in the first and second quarters respectively.

Greater stability is anticipated for wire rod costs in 2006, with prices currently being held steady by the conflicting pressures of abundant steel capacity and high costs for the metallic inputs used in steel making. Wire rod represents approximately half of our cost of goods sold. Prices for zinc and natural gas, which represent 1.7% and 1.2% of costs respectively, have increased since the first quarter of 2005.

Overall we are looking forward to another solid year, with steady improvement in our operating performance.

At the close of a challenging, but ultimately successful year, we thank our employees for their hard work and dedication. We thank you, our unitholders, for your continued confidence in Tree Island. We look forward to rewarding your trust in us again in 2006.

Rod Senft

**Roderick R. Senft**
*Chairman and Trustee*
Tree Island Wire Income Fund

T A Leja

**Theodore A. Leja**
*President and Chief Executive Officer*
Tree Island Industries Ltd
*Trustee*
Tree Island Wire Income Fund

# Management's Discussion and Analysis

As of March 3, 2006

The following is a discussion of the financial condition and results of operations of Tree Island Wire Income Fund (the "Fund"). Additional information relating to the Fund, including the Annual Report and Annual Information Form for the year ended December 31, 2005, can be found at www.sedar.com.

The Fund's financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") and reported in Canadian dollars.

## Forward-Looking Statements and Risk

This document contains "forward-looking" statements which involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the Fund to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such statements may use "may", "will", "expect", "believe", "plan" and other similar words. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document.

These forward-looking statements involve a number of risks and uncertainties. Some of the factors that could cause actual results to differ materially from those expressed in or underlying such forward-looking statements are: competition, dependence on the construction industry, supplies of raw materials, dependence on key personnel, labour relations, regulatory matters, environmental risks, the successful execution of acquisition and integration strategies, foreign exchange fluctuations, the effect of leverage and restrictive covenants in financing arrangements, product liability, the ability to obtain insurance, energy cost increases, the ability to fund necessary future capital investments, and changes in tax legislation as well as changes in legislation and governmental regulation and in accounting policies and practices.

Any forward-looking statement speaks only as of the date on which it is made and the Fund undertakes no obligation to update any forward-looking statement or statements to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. New factors emerge from time to time and it is not possible for the Fund to predict which will arise after the date of this document.

## About the Fund

The Fund was launched on November 12, 2002 with the completion of an initial public offering. There were 21,918,400 units of the Fund outstanding as of December 31, 2005. The Fund holds a 100% ownership interest in Tree Island Industries Ltd. ("Tree Island").

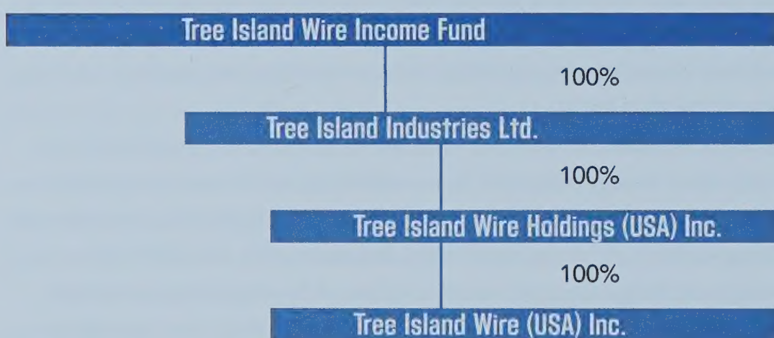
The Fund's performance depends entirely on the performance of Tree Island.

## About Tree Island

Tree Island is one of North America's largest producers of wire and fabricated wire products. Nails, our largest product segment, represent about one third of our revenue. The balance of our products include bright wire (including wire for bedding and upholstery industries), stainless steel wire (used in applications such as springs for inground sprinkler systems and car antennas), galvanized wire (including baling wire), concrete reinforcing mesh, stucco reinforcing products, fence products and other fabricated wire products. These products are made from wire rod sourced from a variety of producers around the world.

A significant portion of our products are used by three different segments of the construction industry: commercial construction, residential construction and residential renovation and improvement market. Each of these segments experiences different demand cycles. We also serve the industrial and commercial fabricated products, bedding and upholstery, forestry, agriculture and security industries. Most of our products are sold to distributors, including wholesale distributors of building products and the building products distribution division of integrated building products manufacturers. We also sell to major retail chains such as Home Depot, Rona and Canadian Tire.

Prior to June 2004, our business was organized into five operating divisions: Tree Island, K-Lath, Advanced Wire Technology (AWT), Halsteel Inc., and Industrial Wire Products Corporation (IWP). On June 2, 2004, we announced the consolidation of our four US operating divisions, AWT, Halsteel, IWP and K-Lath, into a single division called Tree Island Wire USA. The newly consolidated division has benefited from significant operating synergies, more focused leadership, and new growth opportunities. As a result of this consolidation, the legal entities of Halsteel Inc., Halsteel Acquisition Company and IWP were amalgamated into Tree Island Wire (USA) Inc. on December 1, 2004. Our corporate structure is now as follows:




In 2005 the nail equipment from the IWP operation was consolidated with the nail equipment at Halsteel and all of the manufacturing equipment from AWT was consolidated into the IWP plant in Rancho Cucamonga. The AWT facility was then shut down and the Company is attempting to sub-lease the facility. The lease expires in June, 2007.

The Company continues to market products under the brand names of Tree Island, K-Lath, Halsteel, Tree Island Wire and Industrial Alloys. The following table summarizes our five brands, including products, customer and principal geographic markets and locations of production facilities:

| Brands | Products | Customer End Markets | Geographic Markets | Facilities | Founded |
|---|---|---|---|---|---|
| Tree Island | Nails<br>Bright wire<br>Galvanized wire<br>Welded wire mesh<br>Fencing products | Construction (residential commercial, and renovation)<br>Agriculture<br>Forestry<br>Industrial applications | Western USA<br>Western Canada<br>Ontario<br>Quebec | Richmond, British Columbia, and Ferndale, Washington | 1964 |
| K-Lath | Stucco reinforcing products | Construction (residential commercial, and renovation) | California<br>Arizona<br>Nevada<br>New Mexico | Fontana, California | 1944 |
| Industrial Alloys | Stainless steel wire<br>Stainless wire products | Consumer products<br>Industrial applications<br>Telecommunications | USA | Pomona, California | 1943 |
| Tree Island Wire | Bright wire<br>Anchor bolts<br>Threaded products<br>Cold-finished bar<br>Welded wire mesh | Wire fabricating<br>Industrial applications<br>Bedding and upholstery<br>Agriculture<br>Mining | Western USA | Rancho Cucamonga, California | 1943 |
| Halsteel | Collated nails | Construction (residential commercial, and renovation) | Western USA | Ontario, California | 1997 |

## 2005 Overview and 2006 Outlook

As expected, our full-year 2005 results did not match the extraordinary records achieved in 2004, but were above 2003 levels. Margins remained strong by historical standards, supported in part by our steadily increasing efficiency. Sales volumes declined by 12.9% from 2004 and 11.5% from 2003, revenue declined by 12.2% from 2004 but increased 12.5% from 2003, EBITDA declined by 58.8% from 2004 but increased 27.6% from 2003 (EBITDA is a non-GAAP measure that is defined on pages 10 and 11) and distributable cash generated per unit declined 45.6% from 2004 but increased by 8.6% from 2003.

High customer inventories were the key challenge affecting our sales volumes during the 2005 year. Built up in 2004 amidst customer concerns about price increases and product availability, the high inventory levels contributed to a slowdown in customer orders throughout 2005. Increased import competition also had an unfavourable impact on our nail and industrial wire segments through much of 2005. We reduced prices strategically to defend our market share, but did not give up our traditional premium over imports. We were rewarded with increased volumes during the fourth quarter compared to the same period in 2004. Tree Island's results were further enhanced by strong performances from other product lines such as stucco reinforcing products, stainless steel wire, high-carbon galvanized wire and concrete reinforcing products. Sales volumes for these products grew throughout 2005.

Wire rod costs, which had increased significantly during 2004, declined between 8% and 15% during 2005, depending on grade, but remained high by historical standards. There was adequate supply to meet customer needs during 2005, compared to very tight supply during 2004.

Looking ahead, we anticipate demand for wire products will remain stable in 2006. Although housing starts are projected to decline by 7.4% in Canada (according to Canada Mortgage and Housing Corp.) and 6.3% in the US (according to the National Association of Home Builders), the resulting activity will still be at historically high levels. In addition, the home renovation market in the US is forecast to grow by 5.6% (according to the National Association of Home Builders) and the non-residential construction market in the US is expected to grow by 4.7% (according to the American Institute of Architects). We estimate that approximately 39% of our sales are related to new home construction, 11% are related to home renovations and 7% to commercial and infrastructure construction.

Following 2004's inventory build up at our customers' operations and the subsequent inventory correction in 2005, we anticipate that customer buying habits will more closely align with end-user demand in 2006. Customer inventories are currently close to appropriate levels and purchasing activity is stable and regular. Import competition is expected to remain a factor in the nail and industrial wire segments. We continue to differentiate our products from import competitors with a focus on quality and customer service, while increasing our emphasis on products that face little competition from imports, such as stainless steel wire, stucco reinforcing products and concrete reinforcing products.

Wire rod costs are expected to be relatively stable with prices currently being held steady by the conflicting pressures of abundant steel capacity and high costs for the metallic inputs used in steel making. Wire rod represents approximately half of our cost of goods sold. Prices for zinc and natural gas, which represent 1.7% and 1.2% of costs respectively, have increased since the first quarter of 2005.

Our operating efficiency is expected to show continued improvement in 2006 following completion of three projects. The largest of these, the consolidation of our US operations, was completed in the first quarter of 2006 on budget, and is already delivering significant savings in leasing, power and employment costs.

Installation of the $1.2 million hot dip nail galvanizing facility at our Richmond, BC facility is on track for completion in the second quarter of 2006. Once online, the new facility will increase our galvanizing capacity and nail quality. An automation project designed to increase production volumes and enhance efficiency at the Richmond welded reinforcing mesh facility is expected to be completed by the end of the first quarter. Both the hot dip nail and the weld mesh automation projects are on time and on budget.

## Results from Operations

*(thousands of dollars except for tonnage and per unit figures)*

| 12 Months Ended December 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Sales Volumes - Tons | 263,695 | 302,677 | 297,886 |
| Revenue | 336,572 | 383,284 | 299,100 |
| Cost of Goods Sold | (285,640) | (283,868) | (254,785) |
| Depreciation | (20,310) | (20,372) | (22,770) |
| Gross Profit | 30,622 | 79,044 | 21,545 |
| Selling, General and Administrative Expenses | (20,106) | (24,539) | (20,149) |
| Operating Profit | 10,516 | 54,505 | 1,396 |
| Foreign Exchange Gain | 11,611 | 14,044 | 13,749 |
| Impairment/loss on disposal of Long-lived Assets | (1,048) | (2,433) | – |
| Financing Expenses | (3.841) | (3,268) | (3,238) |
| Recovery of (Provision for) Income Taxes | 2,168 | (15,637) | 11,745 |
| Non-Controlling Interest | – | (10,719) | (10,621) |
| Net Income | 19,406 | 36,492 | 13,031 |
| Operating Profit | 10,516 | 54,505 | 1,396 |
| Addback Depreciation | 20,310 | 20,372 | 22,770 |
| EBITDA | 30,826 | 74,877 | 24,166 |
| Foreign Exchange Gain | 11,611 | 14,044 | 13,749 |
| EBITDA Plus Foreign Exchange Gains | 42,437 | 88,921 | 37,915 |
| Distributable Cash Generated per Unit (1) | 1.568 | 2.884 | 1.444 |
| Distributable Cash Paid or Payable per Unit (1) | 1.500 | 1.350 | 1.275 |
| Distribution Payout % (2) | 96% | 47% | 88% |
| Total Assets | 259,141 | 311,647 | 289,040 |
| Long Term Debt | 551 | 571 | 799 |

*(1) See definition of Distributable Cash on page 13.*

*(2) Distribution Payout % is calculated as distributions per unit divided by distributable cash generated per unit.*

## Year Ended December 31, 2005
## Compared to Year Ended December 31, 2004

### Revenue

For the 12 months ended December 31, 2005 we recorded revenue of $336.6 million, down $46.7 million, or 12.2% from 2004. This decrease reflects a 0.8% decrease in average selling price, combined with a 12.9% decrease in our sales volumes reflecting the market conditions described in our 2005 Overview.

Revenue was further reduced by the negative impact of the strengthening Canadian dollar. The average exchange rate for the Canadian dollar in 2005 was 7.8% stronger than the average for 2004. Had exchange rates in 2005 remained consistent with 2004, our 2005 revenue of $336.6 million would have increased to $358.4 million.

### Expenses

Selling, general and administration ("SG&A") expenses totaled $20.1 million in 2005, down $4.4 million from the same period in 2004. This decrease reflects a $4.6 million decrease in spending on our variable compensation program, which applies to all salaried employees, and is based on EBITDA results. The decline in 2005 EBITDA triggered the compensation decrease.

Costs for the long-term incentive plan ("LTIP"), which provides bonus payments to senior management when annual distributions to unitholders exceed certain thresholds of distributable cash per unit, were $986,000, an increase of $739,000 over 2004. The increase reflects higher distributions paid in 2005, following the September 2004 increase in distributions above the threshold level. The benefit of the stronger Canadian dollar on the conversion of SG&A expenses at our US operations reduced costs by $0.8 million.

Financing expenses were $3.8 million ($3.3 million in 2004), including interest of $2.4 million on the operating loan ($2.1 million in 2004), miscellaneous interest expense of $0.9 million ($0.7 million in 2004), and the amortization of deferred financing costs of $0.5 million ($0.5 million in 2004).

We incurred a loss of $0.5 million on the disposal of fixed assets in 2005, reflecting the net book value of obsolete equipment scrapped by Tree Island Wire (USA) during the year. There was also a $0.5 million impairment of long-lived assets at Tree Island Wire (USA) relating to surplus nail equipment that was written down to current realizable value.

The Fund recorded an income tax recovery of $2.2 million (income tax expense of $15.6 million in 2004), which represents a current tax expense of $2.5 million (expense of $20.8 million in 2004), and a future income tax recovery of $4.7 million ($5.2 million in 2004). This tax recovery is based on an expected tax rate of 37.4% applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

There was no impact from the non-controlling interest in 2005, as the non-controlling interest exchanged their non-voting shares and subordinated notes for publicly traded units in the third and fourth quarters of 2004. The impact of the non-controlling interest reduced earnings by $10.7 million in 2004.

### EBITDA

EBITDA is a non-defined term under Canadian generally accepted accounting principles. We define EBITDA as operating profit plus depreciation. EBITDA is a financial measure used by many investors to compare companies on the basis of operating results and the ability to incur and service debt. It is not intended to represent cash flow or the results of operations in terms of GAAP. EBITDA may not be comparable to similarly titled amounts reported by other issuers.

EBITDA for 2005 was $30.8 million, compared to $74.9 million in 2004. This decrease reflects the 12.9% reduction in volumes, the 0.8% decline in average selling prices, the absence of the one-time inventory gains in 2004, and the impact of two unusual items.

The first unusual item was a $3.3 million writedown of our rod inventories in 2005. This reflects our policy of writing down inventory value when forward prices for rod purchases fall below the current cost of existing inventory, a situation which occurred in both the second and third quarters of 2005. The writedowns will

eventually be offset by a lower cost of goods sold when the rod inventory is consumed. In the fourth quarter of 2005 we realized a $0.4 million benefit from the reduced rod cost, which lowered the total impact of the writedown on EBITDA to $2.9 million for the year. This compares to a writedown of $1.9 million in 2004, all of which occurred in the fourth quarter.

The second unusual item was $1.4 million in one-time costs associated with the consolidation of our facilities in the U.S. This project was subsequently completed in the first quarter of Q1 2006 for a total budgeted cost of $1.5 million, and is now contributing to improved efficiency and generating ongoing savings in rent, electricity and labour.

EBITDA, plus gains from foreign exchange conversions was $42.4 million, down from $88.9 million in 2004. Gains from foreign exchange conversions were $11.6 million compared to $14.0 million in 2004.

### Foreign Exchange Impact

The strengthening Canadian dollar affected Tree Island in two ways in 2005:

1. Within our Canadian operations, a stronger dollar had an unfavourable impact on our US dollar revenues, but benefited our US dollar purchases. For the year ended 2005, our Canadian operations generated US dollar revenues of $72.8 million and incurred US dollar expenses of $ 87.2 million, creating US$14.8 million of net outflow exposure.

2. The conversion of US dollar EBITDA generated by our US operations was also affected by a stronger Canadian dollar. In 2005, we generated US$12.3 million of EBITDA from our US operations.

The combination of these factors reduced EBITDA by CDN $0.2 million during 2005.

### Net Income

Net income in 2005 totaled $19.4 million, or $0.89 per unit, down from the $36.5 million, or $1.94 per unit, generated in 2004, reflecting the decrease in EBITDA.

## Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

### Revenue

For the 12 months ended December 31, 2004, our revenue was $383.3 million, up $84.2 million, or 28%, from 2003. This increase reflects the 26% increase in our average selling prices, combined with a 2% increase in volumes.

Sales volumes in the first half of 2004 were 12% higher than during the same period in 2003, reflecting strong demand in the residential housing, commercial construction and manufacturing sectors that we serve. In the second half, sales volumes declined by 10% compared to the same period in 2003, reflecting the move by customers to reduce inventory levels as the supply situation improved. The net result was a total sales volume increase of 2% year-over-year.

Revenue gains were partially offset by the negative impact of the strengthening Canadian dollar. The average exchange rate for the Canadian dollar in 2004 was 7.1% stronger than the average for 2003. Had exchange rates in 2004 remained consistent with 2003, our 2004 revenue of $383.3 million would have increased to $409.0 million.

### Expenses

Selling, general and administration ("SG&A") expenses totaled $24.5 million in 2004, up $4.4 million from the same period in 2003. This increase reflects a $5.4 million increase in spending on our variable compensation program and $247,000 in spending on our LTIP program. Offsetting these increases was a $1.0 million benefit from the stronger Canadian dollar on the conversion of the SG&A expenses of our US operation.

Financing expenses were $3.3 million ($3.2 million in 2003), including interest of $2.1 million on the operating loan ($2.1 million in 2003), miscellaneous interest expense of $0.7 million ($0.7 million in 2003), and the amortization of deferred financing costs of $0.5 million ($0.4 million in 2003).

We incurred a loss of $0.8 million on the disposal of fixed assets in 2004, reflecting the net book value of obsolete equipment scrapped by Tree Island Wire (USA) during the year. There was also a $1.6 million impairment of long-lived assets at Tree Island Wire (USA) relating to surplus nail equipment that was written down to current realizable value.

The Fund recorded an income tax expense of $15.6 million (income tax recovery of $11.7 million in 2003), which represents a current tax expense of $20.8 million (recovery of $1.3 million in 2003), and a future income tax recovery of $5.2 million ($13.0 million in 2003). This tax recovery is based on an expected tax rate of 37.8% applied to the income of subsidiaries before taxes, with adjustments for permanent differences between accounting and taxable income.

The impact of the non-controlling interest reduced earnings by $10.7 million ($10.6 million in 2003 when the non-controlling interest was 25% for the full year). This reflects interest of $3.5 million ($6.2 million in 2003) on the subordinated notes held by the non-controlling interest, $7.1 million ($4.4 million in 2003) for the non-controlling interest's share of Tree Island's income for the period, and $0.1 million in other amounts paid to the non-controlling interest.

### EBITDA

EBITDA for 2004 was $74.9 million, an increase of $50.7 million (210%) over the same period in 2003. EBITDA, plus gains from foreign exchange conversions was $88.9 million, up $51.0 million (135%) over 2003. This increase reflects the improvement to our margins caused by higher selling prices and the beneficial impact of a high level of raw material inventory coming into a period of rising prices, as well as the increase in sales volumes. EBITDA was further improved by ongoing cost improvement initiatives and optimal run rates at our manufacturing facilities.

### Foreign Exchange Impact

During 2004, we generated $72.9 million in US revenue, $83.6 million in US dollar expenses and $35.4 million in EBITDA from our US operations. Conversion of these amounts into Canadian dollars reduced our total EBITDA by CDN $2.3 million.

### Net Income

Net income in 2004 totaled $36.5 million or $1.94 per unit, higher than the $13.0 million, or $0.79 per unit, generated in 2003, reflecting the increase in EBITDA.

## Distributable Cash

Distributable cash is not a defined term under Canadian generally accepted accounting principles. We define distributable cash as the net cash flow from operations, less maintenance capital expenditures. Non-maintenance capital expenditures are not recorded as a reduction from distributable cash flow as these expenditures are fundable through the Fund's committed credit facilities. We define maintenance capital expenditures as cash outlays required to maintain our plant and equipment at current operating capacity and efficiency levels. Non-maintenance capital expenditures are defined as cash outlays required to increase business operating capacity or improve operating efficiency.

Our policy is to make equal monthly distributions to unitholders based on our estimate of the annual distributable cash available for distribution. The amount of distributable cash available for distribution is based on the distributable cash generated, less cash redemption of Fund units, cash utilized to fund working capital requirements and any reserve deemed prudent by the Trustees of the Fund. Distributions are made to unitholders of record on the last business day of each month. Distributions are payable on the 15th day (or closest business day following) of the month following the declaration.

Distributable cash for the years ended December 31, 2005, December 31, 2004 and December 31, 2003 was calculated as follows:

*(thousands of dollars except for per unit and % amounts)*

| Year Ended December 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Net Income for the Period | 19,406 | 36,492 | 13,031 |
| Depreciation | 20,310 | 20,372 | 22,770 |
| Impairment/loss on disposal of long-lived assets | 1,048 | 2,433 | – |
| Amortization of deferred charges | 535 | 531 | 420 |
| Future income tax recovery | (4,726) | (5,170) | (13,033) |
| Non-controlling interest | – | 10,719 | 10,621 |
| **Net Cash Flow from Operations** | **36,573** | **65,377** | **33,809** |
| Less Maintenance Capital Expenditures | 2,206 | 2,171 | 2,165 |
| Distributable Cash | 34,367 | 63,206 | 31,644 |
| Distributable Cash | | | |
| - Unitholders | 34,367 | 53,034 | 23,733 |
| - Non-controlling interest | – | 10,172 | 7,911 |
| | 34,367 | 63,206 | 31,644 |
| Distributions Paid or Payable | | | |
| - Unitholders | 32,878 | 25,556 | 20,960 |
| - Non-controlling interest (current year) | – | 4,034 | 6,987 |
| - Non-controlling interest (from prior year) | – | – | 932 |
| | 32,878 | 29,590 | 28,879 |
| Distributable Cash Generated per Unit | 1.568 | 2.884 | 1.444 |
| Distributions Paid or Payable per Unit | 1.500 | 1.350 | 1.275 |
| Distribution Payout % | 96% | 47% | 88% |

*Distribution payout percentage is calculated as distributions per unit, divided by distributable cash generated per unit.*

For the year ended December 31, 2005, we generated total distributable cash of $34.4 million, or $1.57 per unit. Of this, $27.1 million, or $1.24 per unit, was generated by operations, while gains from foreign exchange conversion activities contributed an additional $7.3 million, or $0.33 per unit, net of related taxes.

We declared distributions of $0.125 per unit in each of the twelve months from January to December, totaling $32.9 million, or $1.50 per unit. In our October 31, 2002 prospectus we projected our annual distribution to be $1.275 per unit.

The breakdown of our 2005 distribution per unit was:

| | | $ per unit |
|---|---|---|
| Regular Income | $ | 0.99358 |
| Return of Capital | $ | 0.12265 |
| Dividends | $ | 0.38377 |
| Total | $ | 1.50000 |

## Cash Flow

Following is a summary of our cash flow – (bracketed figures indicate use of cash):

| Year Ended December 31 | 2005 | 2004 | 2003 |
|---|---|---|---|
| Net Cash Flow from Operations | 36,573 | 65,377 | 33,809 |
| Change in Non-Cash Working Capital Items | 17,393 | (33,280) | (11,283) |
| Capital Expenditures | (3,545) | (4,293) | (3,227) |
| Distributions to Unitholders | (32,878) | (25,556) | (20,960) |
| Distributions to NCI | - | (4,035) | (7,919) |
| Repayment of Long Term Debt | (2,245) | (74) | (73) |
| Increase (Decrease) in Revolving Credit Net of Cash | 15,298 | (1,861) | (9,653) |

In 2005, the annual net cash flow from operations was $36.6 million, a decrease of $28.8 million over the same period in 2004. The decrease reflects the lower EBITDA generated in 2005.

The working capital requirements of our Canadian operations are funded by a secured CDN $42.5 million revolving credit facility. We also have a secured US$25.0 million facility to fund the working capital requirements of our US operations. The amounts available from these facilities are limited to the amount of the calculated borrowing base. The borrowing base is calculated as 85% of eligible receivables and 60% of eligible inventory. On a combined basis, our utilization of these facilities decreased from CDN$34.6 million at December 31, 2004 to CDN$18.8 million at December 31, 2005, mainly due to a $17.4 million decrease in working capital. The decrease in working capital reflected a lower investment in inventories partially offset by reduced payables and accrued liabilities.

Our credit facilities contain restrictive covenants that limit the discretion of our management with respect to certain business matters. These covenants place restrictions on, among other things, our ability to incur additional indebtedness, to create liens or other encumbrances, to pay dividends or make certain other payments, investments, loans and guarantees and to sell or otherwise dispose of assets and merge or consolidate with another entity. In addition, our credit facilities contain financial covenants that require us to meet certain financial ratios and financial condition tests. A failure to comply with the obligations in the credit facility could result in an event of default which, if not cured or waived, could permit acceleration of the relevant indebtedness and may limit the Fund's ability to make distributions. We were in full compliance with all covenants at December 31, 2005.

## Capital Expenditures

Capital expenditures in 2005 were $3.5 million ($4.3 million in 2004), of which $2.2 million ($2.2 million in 2004) was maintenance capital and $1.3 million ($2.1 million in 2004) was profit improvement capital. The profit improvement capital was spent on equipment to automate various manufacturing processes at Halsteel and our Tree Island Canadian division. For 2006 we are estimating total capital expenditures of up to $6.0 million, with up to $3.4 million of maintenance capital and $2.6 million of profit improvement capital. The profit improvement capital will be spent to complete the hot dip galvanizing facility and welded reinforcing mesh automation projects started in 2005, as well as for potentially adding wire drawing capacity at our stainless steel operation.

## Contractual Commitments (in thousands of dollars)

As of December 31, 2005, Tree Island and its subsidiaries had committed to the following which will be financed through working capital and our revolving credit facility:

| | 2006 | 2007 | 2008 | 2009 | 2010 | Thereafter |
|---|---|---|---|---|---|---|
| Wire rod purchases | 18,627 | – | – | – | – | – |
| Zinc purchases | 1,672 | – | – | – | – | – |
| Natural gas purchases | 968 | – | – | – | – | – |
| Operating leases agreements | 3,261 | 1,962 | 1,176 | 924 | 795 | 587 |
| Long term debt repayments | 86 | 86 | 95 | – | – | – |

## Critical Accounting Policies

The consolidated financial statements are based on the selection and application of a number of accounting policies. We believe that the following accounting policies may involve a higher degree of judgment and complexity in their application, and represent our critical accounting policies.

(a) Consolidation

The consolidated financial statements include the accounts of the Fund and TIL, and TIL's wholly-owned subsidiaries, Tree Island Wire Holdings (USA) Inc. and Tree Island Wire (USA) Inc. ("TIW"). Significant inter-company accounts and transactions have been eliminated on consolidation.

(b) Translation of foreign currencies

Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated into equivalent Canadian dollars at the exchange rates in effect at the balance sheet date with any resulting gain or loss being recognized in the consolidated statement of operations. The effects of fluctuations in exchange rates between the dates of transactions and of settlements are reflected in the statement of operations and retained earnings.

The consolidated financial statements of the Company's self sustaining subsidiary, TIW, are translated into Canadian dollars as follows:

- assets and liabilities using the exchange rates in effect at the balance sheet date;
- revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred; and
- unrealized translation gains and losses are deferred and presented in the cumulative translation adjustment as a component of unitholders' equity.

(c) Inventories

Finished and semi-finished finished products, consumable supplies and spare parts inventories are stated at the lower of weighted average cost and net realizable value. Raw material inventories are recorded at the lower of cost and replacement cost. For finished and semi-finished products, cost includes raw materials, applicable labour and manufacturing overhead.

(d) Goodwill

Goodwill is the excess of the cost of an acquired enterprise over the net amounts assigned to individual assets acquired and liabilities assumed in a business combination. Goodwill is not amortized and is tested for impairment at least annually.

## Critical Accounting Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements, and that also affect the reported amounts of revenues and expenses during the reporting period. We base our estimates and assumptions on past experience and other factors that are deemed reasonable under the circumstances. Actual results could differ from these estimates. The critical estimates used in preparing our financial statements are:

(a) Allowance for doubtful accounts

We anticipate that a certain portion of required customer payments will not be made, and we maintain an allowance for these doubtful accounts. The allowance is based on our estimation of the potential of recovering our accounts receivable and incorporates current and expected collection trends.

(b) Inventory Reserves

We anticipate that a certain portion of our inventory may become damaged or obsolete. The reserve is based on an analysis of the length of time product has been in inventory and historical rates of damage and obsolescence.

(c) Environmental Reserves

Tree Island has reserves established for several environmental issues. The amount of these reserves is based on current engineering and legal estimates. These estimates are reviewed regularly and the reserve is updated when they change.

(d) Sales Claims Reserve

We anticipate a certain level of customer claims relating to pricing, quantity and quality. The estimates used to determine this reserve are based on historical trends.

(e) Depreciation

Property, plant and equipment are recorded at cost. No depreciation is charged on capital projects during the period of construction. Depreciation is determined using the straight-line method over the estimated useful lives of the depreciable assets as follows:

| | |
|---|---|
| Buildings and improvements | 19 to 25 years |
| Machinery and equipment | 4 to 15 years |

(f) Impairment of long-lived assets

Goodwill is the excess of the cost of an acquired enterprise over the net of the amounts assigned to individual assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is assessed for impairment annually. To accomplish this, the Company identifies its reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the goodwill and intangible assets, to those reporting units as of the date of adoption. As a result of this process, the Company identifies reporting units by geographical operations for Canada and the United States. The Company determines the fair value of its reporting units based on operating cash flows and compares them to each reporting unit's carrying value. If the carrying value of a reporting unit exceeds its fair value, the Company performs the second step of the impairment test whereby the fair value is allocated to each of the assets and liabilities of the reporting unit. Any residual amount not allocated is compared to the carrying value of goodwill. Goodwill is written down to the extent the residual value is less than the carrying value of goodwill.

(g) Asset Retirement Obligations

The Company recognizes legal obligations associated with the retirement of property, plant and equipment that result from the acquisition, construction, development or normal operations of the assets. These obligations, if material, are recorded at fair value and capitalized and depreciated as part of the cost of the related asset.

(h) Income taxes

We follow the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable in the current year. Future income tax assets or liabilities are calculated using tax rates in effect in the periods that the temporary differences are expected to reverse. The effect of the change in income tax rates on future income tax assets and liabilities is recognized in income in the period the change occurs.

## Changes in Accounting Policies

There were no changes to accounting policies in 2005.

## Risks and Uncertainties

Investment in the Fund is subject to a number of risks. Cash distributions to unitholders are dependent upon the ability of Tree Island to pay its interest and principal obligations under the notes, and to declare and pay dividends in respect of the voting common shares. Tree Island's income is dependent upon the fabricated wire products business, which is susceptible to a number of risks.

Risks affecting Tree Island include competition from one or more competitors in all geographic areas where our operations are located, as well as competition from foreign manufacturers; dependence on the construction industry (57% of our sales are directly related to construction activity); availability of raw materials (50% of our costs are for wire rod, a product that must be sourced in the open market); dependence on key personnel; labour relations; changes in legislation and governmental regulations; environmental risks; foreign exchange fluctuations; the effect of leverage and restrictive covenants in financing arrangements; product liability; the ability to obtain insurance; energy cost increases; the ability to fund necessary future capital investments; and changes in tax legislation.

## Quarterly Results

The table below provides selected quarterly financial information for the eight most recent fiscal quarters to December 31, 2005. This information is unaudited, but reflects all adjustments of a normal, recurring nature which are, in our opinion, necessary to present a fair statement of the results of operations for the periods presented.

Fourth quarter results are traditionally lower than the other quarters due to the seasonality of our business. Quarter-over-quarter results may also be impacted by unusual or infrequently occurring items. Significant items that impacted the last eight quarters net earnings are as follows:

- During the first and second quarter of 2004, our average selling price per ton increased by 37% in response to rising steel costs.
- Earnings in Q2 and Q3 2004 benefited from inventory gains as selling prices increased faster than steel costs.
- Earnings in Q4 2004 were impacted by a $1.9 million writedown of our rod inventories triggered by reductions in our negotiated rod prices for the first quarter of 2005.

- Earnings in Q2 2005 include the impact of two unusual items. The first was a $2.6 million writedown of our wire rod inventories triggered by reductions in our negotiated rod prices for the fourth quarter of 2005. The second unusual item was $0.7 million in one-time costs associated with the consolidation of our facilities in the US. Combined, these two items had a $3.3 million negative impact on our second quarter EBITDA and an after-tax $2.7 million ($0.125 per unit) negative impact on distributable cash results.
- Earnings in Q3 2005 were impacted by the same two unusual items as in Q2 2005. As of September 30, 2005 our inventory cost of rod exceeded the prices that we had negotiated on Q3, 2005 and Q1, 2006 rod orders. As a result, there was a further $0.75 million writedown of our wire rod inventories. We also recorded $0.35 million in one-time costs associated with the consolidation of our facilities in the US. Combined, these two items had a $1.10 million negative impact on our third-quarter EBITDA and an after-tax $0.68 million ($0.031 per unit) negative impact on distributable cash results.
- Earnings in Q4 2005 were impacted by $0.35 million in one-time costs associated with the consolidation of our facilities in the US. Earnings in Q4 2005 benefited from a $0.4 million partial recovery of the Q2 and Q3 2005 rod writedowns.

## Quarterly Results

*(amounts in thousands of dollars, except per unit amounts)*

*(unaudited)*

| | Dec 31 2005 | Sep 30 2005 | Jun 30 2005 | Mar 31 2005 | Dec 31 2004 | Sep 30 2004 | Jun 30 2004 | Mar 31 2004 |
|---|---|---|---|---|---|---|---|---|
| *Sales Volumes – Tons* | *57,305* | *68,015* | *69,596* | *68,779* | *54,901* | *74,249* | *88,064* | *85,463* |
| Revenue | 70,950 | 85,193 | 91,052 | 89,377 | 72,646 | 106,504 | 117,561 | 86,573 |
| EBITDA | | | | | | | | |
| EBITDA from Operations | 4,407 | 6,956 | 8,532 | 10,931 | 4,364 | 24,049 | 33,693 | 12,771 |
| Foreign Exchange Gain | 1,445 | 4,898 | 2,566 | 2,702 | 6,259 | 4,449 | 1,614 | 1,722 |
| EBITDA plus Foreign Exchange Gain | 5,852 | 11,854 | 11,098 | 13,633 | 10,623 | 28,498 | 35,307 | 14,493 |
| Net Income | 1,474 | 6,275 | 5,049 | 6,608 | 4,028 | 14,616 | 13,718 | 4,130 |
| Income per Unit | 0.07 | 0.29 | 0.23 | 0.30 | 0.18 | 0.72 | 0.83 | 0.25 |
| Distributable Cash Generated | | | | | | | | |
| Unitholders | 5,781 | 10,249 | 7,735 | 10,602 | 8,055 | 18,961 | 17,806 | 8,212 |
| Non-controlling interest | – | – | – | – | – | 1,499 | 5,935 | 2,738 |
| Total | 5,781 | 10,249 | 7,735 | 10,602 | 8,055 | 20,460 | 23,741 | 10,950 |
| Distributions Paid or Payable | | | | | | | | |
| Unitholders | 8,220 | 8,220 | 8,219 | 8,219 | 8,219 | 6,856 | 5,240 | 5,240 |
| NCI (Current Year) | – | – | – | – | – | 541 | 1,747 | 1,747 |
| Total | 8,220 | 8,220 | 8,219 | 8,219 | 8,219 | 7,397 | 6,987 | 6,987 |
| Distributable Cash Generated per Unit | 0.264 | 0.468 | 0.353 | 0.484 | 0.368 | 0.933 | 1.083 | 0.500 |
| Distributions Declared per Unit | 0.375 | 0.375 | 0.375 | 0.375 | 0.375 | 0.338 | 0.319 | 0.319 |
| Distribution Payout % | 142% | 80% | 106% | 78% | 102% | 36% | 29% | 64% |

## Fourth Quarter 2005 Results

For the three months ended December 31, 2005, we generated total distributable cash of $5.8 million, or $0.264 per unit, a decrease of 28% from $8.1 million, or $0.368 per unit for the same period in 2004. Of the $5.8 million in distributable cash, $4.9 million was generated from operations ($4.1 million in Q4 2004) and $0.9 million was generated from gains on foreign exchange conversions ($3.9 million in Q4 2004). Distributions of $0.375 per unit were declared during the period, the same as in Q4 2004.

Fourth quarter revenue was $71.0 million, compared to $72.6 million in Q4 2004. The change in revenue reflects a decrease in average selling prices of 3.3% in the US (selling prices in Canada were consistent), as well as a $2.4 million unfavourable foreign exchange impact on US dollar-based sales. The value of the Canadian dollar was 3.9% higher in Q4 2005 compared to the same quarter in 2004. Partially offsetting the negative impacts was a 4.4% increase in sales volumes, which reflected a return to normal customer buying patterns and stronger results in the nail and industrial wire segments during the quarter. Continuing strong sales of stucco reinforcing products, stainless steel wire, high-carbon galvanized wire, concrete reinforcing products and fence products also contributed to the stronger volumes.

Selling, general and administration expenses were $5.1 million, down 12.3% from the fourth quarter of 2004. The improvement reflects the benefit of the stronger Canadian dollar on the conversion of US division costs and a lower accrual for Tree Island's EBITDA-based variable compensation plan.

Fourth quarter EBITDA of $4.4 million was consistent with the $4.4 million generated in 2004. EBITDA, plus gains from foreign exchange conversions, was $5.9 million compared to $10.6 million, reflecting a lower gain on foreign exchange conversion activities during the current period.

Fourth quarter net income was $1.5 million ($0.07 per unit), compared to $4.0 million ($0.18 per unit) generated during the fourth quarter of 2004. The change in net income reflects reduced gains from foreign exchange conversions.

## Disclosure Controls and Procedures

Tree Island's management is responsible for establishing and maintaining disclosure controls and procedures to ensure that information used internally and disclosed externally is complete and reliable. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures and have concluded that they are adequate and effective as of the year ended December 31, 2005.

## Management's Statement of Responsibilities

The accompanying consolidated financial statements are the responsibility of management and have been reviewed and approved by the Board of Directors and the Trustees. The consolidated financial statements have been prepared by management, in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. Management has also prepared financial and all other information in the annual report and has ensured that this information is consistent with the consolidated financial statements.

The Company maintains appropriate systems of internal control, policies and procedures, which provide management with reasonable assurance that assets are safeguarded and the financial records are reliable and form a proper basis for preparation of financial statements.

The Board of Directors and the Trustees ensure that management fulfills its responsibilities for financial reporting and internal control through an Audit Committee. This committee reviews the consolidated financial statements and reports to the Trustees. The auditors have full and direct access to the Audit Committee.

The consolidated financial statements have been independently audited by Deloitte & Touche LLP, in accordance with Canadian generally accepted auditing standards. Their report below expresses their opinion on the consolidated financial statements of the Fund.

T.A. Leja

**Theodore A. Leja**
*President and Chief Executive Officer*
Tree Island Industries Ltd

## Auditors' Report

### To the Unitholders of Tree Island Wire Income Fund

We have audited the consolidated balance sheets of Tree Island Wire Income Fund as at December 31, 2005 and 2004 and the consolidated statements of operations, unitholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

**Chartered Accounts**

Vancouver, British Columbia
March 3, 2006

## Consolidated Balance Sheets

*(In thousands of dollars)*

| | As at December 31 2005 $ | As at December 31 2004 $ |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash | 1,718 | 2,186 |
| Accounts receivable | 25,757 | 27,599 |
| Prepaid expenses | 2,476 | 2,252 |
| Income taxes receivable | 2,132 | – |
| Inventories (note 3) | 93,054 | 123,939 |
| | 125,137 | 155,976 |
| Property, plant and equipment (note 4) | 90,885 | 109,655 |
| Deferred charges (note 5) | 1,008 | 1,611 |
| Goodwill | 42,111 | 44,405 |
| | 259,141 | 311,647 |
| **Liabilities** | | |
| Current | | |
| Revolving credit (note 6) | 18,806 | 34,572 |
| Current portion of long-term debt (note 7) | 83 | 2,245 |
| Accounts payable and accrued liabilities | 50,014 | 58,741 |
| Income and other taxes payable | – | 2,864 |
| Interest payable | 195 | 361 |
| | 69,098 | 98,783 |
| Long-term debt (note 7) | 185 | 277 |
| Other non-current liabilities | 551 | 571 |
| Future income taxes (note 11) | 16,423 | 23,141 |
| | 86,257 | 122,772 |
| Unitholders' Equity | 172,884 | 188,875 |
| | 259,141 | 311,647 |

Approved on behalf of Tee Island Wire Income Fund

Rod Senft

**Roderick R. Senft**
*Trustee*

T.A. Leja

**Theodore A. Leja**
*Trustee*

*See accompanying Notes to the Consolidated Financial Statements*

## Consolidated Statement of Operations

*(In thousands of dollars, except per unit amounts)*

| | Year Ended December 31 2005 $ | Year Ended December 31 2004 $ |
|---|---|---|
| Sales | 336,572 | 383,284 |
| Cost of goods sold | 285,640 | 283,868 |
| Depreciation | 20,310 | 20,372 |
| Gross profit | 30,622 | 79,044 |
| Selling, general and administrative expenses | 20,106 | 24,539 |
| Operating profit | 10,516 | 54,505 |
| Foreign exchange gain | 11,611 | 14,044 |
| Impairment/loss on disposal of long-lived assets (note 14) | (1,048) | (2,433) |
| Financing expenses | (3,841) | (3,268) |
| Income before provision for income taxes | 17,238 | 62,848 |
| Recovery of (provision for) income taxes (note 11) | 2,168 | (15,637) |
| Income before non-controlling interest | 19,406 | 47,211 |
| Non-controlling interest (note 8) | – | (10,719) |
| Net income for the year | 19,406 | 36,492 |
| Basic and diluted net income per unit | 0.89 | 1.94 |
| Weighted-average number of units (Basic and diluted) | 21,918,400 | 18,790,618 |

*See accompanying Notes to the Consolidated Financial Statements*

## Consolidated Statement of Unitholders' Equity

*(In thousands of dollars)*

| | Unitholders' Capital $ | Accumulated Earnings $ | Distributions $ | Cumulative Translation Adjustment $ | Total $ |
|---|---|---|---|---|---|
| Balance on commencement of operations, November 11, 2002 | 152,988 | – | – | – | 152,988 |
| Activity for the fifty days | – | (1,308) | (2,853) | 309 | (3,852) |
| Balance as at December 31, 2002 | 152,988 | (1,308) | (2,853) | 309 | 149,136 |
| Activity for the year | – | 13,031 | (20,960) | (12,765) | (20,694) |
| Balance as at December 31, 2003 | 152,988 | 11,723 | (23,813) | (12,456) | 128,442 |
| Issue of fund units to non-controlling interest | 56,869 | – | – | – | 56,869 |
| Activity for the year | – | 36,492 | (25,556) | (7,372) | 3,564 |
| Balance as at December 31, 2004 | 209,857 | 48,215 | (49,369) | (19,828) | 188,875 |
| Activity for the year | – | 19,406 | (32,878) | (2,519) | (15,991) |
| Balance as at December 31, 2005 | 209,857 | 67,621 | (82,247) | (22,347) | 172,884 |

*See accompanying Notes to the Consolidated Financial Statements*

# Consolidated Statement of Cash Flows

*(In thousands of dollars)*

| | Year Ended December 31 2005 $ | Year Ended December 31 2004 $ |
|---|---|---|
| **Operating Activities** | | |
| Net income for the year | 19,406 | 36,492 |
| Items not involving cash | | |
| Depreciation | 20,310 | 20,372 |
| Impairment/loss on disposal of long-lived assets | 1,048 | 2,433 |
| Amortization of deferred charges | 535 | 531 |
| Future income taxes | (4,726) | (5,170) |
| Non-controlling interest (note 8) | – | 10,719 |
| Net cash flow from operations | 36,573 | 65,377 |
| Change in non-cash operating assets and liabilities | | |
| Accounts receivable | 1,842 | (1,954) |
| Inventories | 30,885 | (44,847) |
| Accounts payable and accrued liabilities | (8,895) | 13,935 |
| Income and other taxes payable | (4,915) | 3,587 |
| Other | (1,524) | (4,001) |
| Cash provided by operating activities | 53,966 | 32,097 |
| **Investing Activities** | | |
| Proceeds on disposal of long-lived assets | 21 | – |
| Purchase of property, plant and equipment | (3,566) | (4,293) |
| Cash used in investing activities | (3,545) | (4,293) |
| **Financing Activities** | | |
| Payments to non-controlling interest | – | (4,035) |
| Repayment of long-term debt | (2,245) | (74) |
| (Repayment) drawdown of revolving credit | (15,766) | 3,892 |
| Distributions to unitholders | (32,878) | (25,556) |
| Cash used in financing activities | (50,889) | (25,773) |
| (Decrease) increase in cash | (468) | 2,031 |
| Cash, beginning of year | 2,186 | 155 |
| Cash, end of year | 1,718 | 2,186 |
| **Supplemental Cashflow Information:** | | |
| Interest paid | 3,472 | 2,613 |
| Income taxes paid | 7,534 | 17,144 |
| **Non-cash financing activities** | | |
| Issue of Fund units to non-controlling interest | – | 56,869 |

*See accompanying Notes to the Consolidated Financial Statements*

# Notes to the Consolidated Financial Statements

Tree Island Wire Income Fund

*For the years ended December 31, 2005 and December 31, 2004*
*(In thousands of dollars, except per unit amounts)*

## 1.
## Formation of the Fund and Conversion of Non-controlling Interest to Publicly Traded Fund Units

The Fund is an unincorporated open-ended, limited purpose trust established under the laws of the Province of British Columbia pursuant to a Declaration of Trust dated September 30, 2002. The Fund was formed to acquire 75% of the common shares and $136,995 of 13.75% Series A unsecured subordinated notes ("Tree Island Notes") of TI Industries Inc. ("TII"), the predecessor of Tree Island Industries Ltd. ("TIL"). This acquisition was completed on November 12, 2002. To finance this acquisition, the Fund issued 16,438,800 trust units in a public offering for net proceeds of $152,988, after deducting costs of the offering.

Each unitholder participates pro rata in distributions of net earnings and, in the event of termination of the Fund, participates pro rata in the net assets remaining after satisfaction of all liabilities. Income tax obligations related to the distribution of net earnings by the Fund are the obligations of the unitholders.

Concurrently with the Fund's acquisition of its effective 75% interest in TII, the 25% non-controlling interest in TII, represented by non-voting common shares and Series B notes, was issued to the former shareholders of TII.

During 2004, 100% of holders of the non-controlling interest in TII exercised their right to exchange their non-voting shares and Series B notes for publicly-traded units in the Fund. The Fund issued 5,479,600 units in exchange. After the conversion of the non-controlling interest, the Fund owns 100% of the common shares of TIL.

## 2.
## Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following policies:

### (a) Consolidation

The consolidated financial statements include the accounts of the Fund and TIL, and TIL's wholly-owned subsidiaries, Tree Island Wire Holdings (USA) Inc. and Tree Island Wire (USA) Inc. ("TIW"). During 2004 the Company's wholly-owned subsidiaries, Industrial Wire Products ("IWP"), and Halsteel Acquisition Company ("HAC") and its subsidiary, were amalgamated into TIW. Significant intercompany accounts and transactions have been eliminated on consolidation.

(b) Translation of foreign currencies

Transactions undertaken in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are translated into equivalent Canadian dollars at the exchange rates in effect at the balance sheet date with any resulting gain or loss being recognized in the consolidated statement of operations. The effects of fluctuations in exchange rates between the dates of transactions and of settlements are reflected in the statement of operations and retained earnings.

The consolidated financial statements of the Company's self sustaining subsidiary, TIW, are translated into Canadian dollars as follows:

- assets and liabilities using the exchange rates in effect at the balance sheet date;
- revenue and expense items at approximate exchange rates prevailing at the time the transactions occurred; and
- unrealized translation gains and losses are deferred and presented in the cumulative translation adjustment as a component of unitholders' equity.

(c) Inventories

Finished and semi-finished products, consumable supplies and spare parts inventories are stated at the lower of weighted average cost and net realizable value. Raw material inventories are recorded at the lower of cost and replacement costs. For finished and semi-finished products, cost includes raw materials, applicable labour and manufacturing overhead.

(d) Property, plant and equipment and depreciation

Property, plant and equipment are recorded at cost. Depreciation is determined using the straight-line method over the estimated useful lives of the depreciable assets as follows:

| | |
|---|---|
| Buildings and improvements | 19 to 25 years |
| Machinery and equipment | 4 to 15 years |

No depreciation is charged on capital projects during the period of construction.

The Company performs impairment tests on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment-loss, if any, is determined as the excess of the carrying value of the asset over its fair value, and is charged to earnings.

(e) Asset Retirement Obligations

The Company recognizes legal obligations associated with the retirement of property, plant and equipment that result from the acquisition, construction, development or normal operations of the assets. These obligations, if material, are recorded at fair value and capitalized and depreciated as part of the cost of the related asset.

(f) Goodwill

Goodwill is the excess of the cost of an acquired enterprise over the net of the amounts assigned to individual assets acquired and liabilities assumed in a business combination. Goodwill is not amortized but is assessed for impairment annually. To accomplish this, the Company identifies its reporting units and determines the carrying value of each reporting unit by assigning the assets and liabilities, including the goodwill and intangible assets, to those reporting units as of the date of adoption. As a result of this process, the Company identifies reporting units by geographical operations for Canada and the United States. The Company determines the fair value of its reporting units based on operating cash flows and compares them to each reporting unit's carrying value. If the carrying value of a reporting unit exceeds its fair value, the Company performs the second step of the

impairment test whereby the fair value is allocated to each of the assets and liabilities of the reporting unit. Any residual amount not allocated is compared to the carrying value of goodwill. Goodwill is written down to the extent the residual value is less than the carrying value of goodwill.

(g) Revenue recognition

The Fund recognizes revenue when legal title passes to customers, price is fixed or determinable and collectibility is reasonably assured.

(h) Post-retirement benefits

The Fund has four defined contribution pension plans as described in Note 10 and one multi employer defined benefit plan. The cost of defined contribution pensions is expensed as earned by employees. The contributions to the multi employer defined benefit plan are expensed as made and any actuarially determined unfunded pension liability is accrued for and charged to earnings.

(i) Deferred financing costs

Costs incurred in connection with securing the credit facilities are amortized to financing expenses on a straight-line basis over the term of the related indebtedness. Deferred financing costs are shown net of amortization.

(j) Income taxes

The Fund follows the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable in the current year. Future income tax assets or liabilities are calculated using tax rates in effect in the periods that the temporary differences are expected to reverse. The effect of the change in income tax rates on future income tax assets and liabilities is recognized in income in the period the change occurs.

(k) Measurement Uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas that involve estimates include provisions for uncollectible accounts receivable, the amortization rate, valuation and estimated useful life of capital assets, provisions for obsolete inventory, the valuation of goodwill, provisions for current and future income taxes, asset retirement obligations and provisions for sales returns and allowances. Actual results could differ from those estimates.

(l) Financial instruments and risks

The Fund's financial instruments consist primarily of cash, accounts receivable, amounts payable under the revolving lines of credit, accounts payable and accrued liabilities, interest payable, income taxes receivable/payable and long-term debt.

The carrying values of cash, accounts receivable, amounts payable under the revolving lines of credit, accounts payable and accrued liabilities, interest payable and income taxes receivable/payable approximate their fair values due to the immediate or short-term maturity of these financial instruments. The fair value of the Fund's long-term debt is estimated based on quoted market prices for the same or similar issues or on the current rates offered to the Fund for debt of the same maturity as well as the use of discounted future cash flows using current rates for similar financial instruments subject to similar risks and maturities. For the period covered by these statements, the estimated fair value of long-term debt approximates the carrying value.

The Fund is exposed to interest rate risk arising from fluctuations in interest rates on its amounts payable under the revolving lines of credit and long-term debt.

The Fund is exposed to credit risk with respect to its accounts receivable; however, this is minimized by the Fund's large customer base which covers business sectors throughout North America. The Fund follows a program of credit evaluations of customers and limits the amount of credit extended when deemed necessary. The Fund maintains provisions for potential credit losses and any such losses to date have been within management's expectations.

The Fund is exposed to foreign exchange risk. Certain of the Fund's sales and purchases are denominated in US dollars. Any increases or decreases to the foreign exchange rates could increase or decrease the Fund's income. The Fund does not use derivative instruments to manage this risk.

(m) Net income per unit

Basic net income per unit is calculated by dividing net income by the weighted-average number of units outstanding during the period. Diluted income per unit was calculated to give effect to units issuable on conversion of the subordinated Series B notes and non-voting common shares of TIL prior to their conversion to fund units (Note 9). This had no dilutive effect in the periods presented.

(n) Comparative Figures

Certain of the comparative figures have been reclassified to conform to the current year's presentation.

## 3.
## Inventories

| | Dec 31 2005 $ | Dec 31 2004 $ |
|---|---|---|
| Raw materials | 53,624 | 74,347 |
| Finished and semi-finished products | 30,273 | 40,673 |
| Consumable supplies and spare parts | 9,157 | 8,919 |
| | 93,054 | 123,939 |

## 4.
## Property, Plant and Equipment

| | | | Dec 31 2005 | Dec 31 2004 |
|---|---|---|---|---|
| | Cost $ | Accumulated Depreciation $ | Net Book Value $ | Net Book Value $ |
| Land and improvements | 11,704 | – | 11,704 | 11,757 |
| Building and improvements | 34,905 | 7,972 | 26,933 | 29,296 |
| Machinery and equipment | 101,373 | 51,428 | 49,945 | 66,958 |
| Construction in progress | 2,303 | – | 2,303 | 1,644 |
| | 150,285 | 59,400 | 90,885 | 109,655 |

## 5.
## Deferred Charges

| | Dec 31 2005 $ | Dec 31 2004 $ |
|---|---|---|
| Deferred financing costs, net of amortization | 978 | 1,520 |
| Other | 30 | 91 |
| | 1,008 | 1,611 |

## 6.
## Revolving Credit

| | Dec 31 2005 $ | Dec 31 2004 $ |
|---|---|---|
| TIL Cdn $42,500 revolving credit facility bearing interest at Canadian Prime rate plus 1.00% per annum (a), (c) | 17,555 | 19,005 |
| TIW US $25,000 revolving credit facility (US$1,073 at December 31, 2005 and US$12,934 at December 31, 2004) bearing interest at the US Index rate plus 1.00% per annum (a), (b), (d) | 1,251 | 15,567 |
| | 18,806 | 34,572 |

(a) The TIL and TIW credit facilities are secured by security interests in all real and personal property of TIL (for the TIL credit facility) and of TIW (for the TIW credit facility).

(b) The US Index rate for the TIW US dollar revolving credit facilities is defined as the higher of the base rate on corporate loans published in the Wall Street Journal and the federal funds rate, plus 0.5%.

(c) The TIL Canadian revolving credit facility bears interest at the Canadian Prime rate plus 1% per annum or, at the election of the Fund, the banker's acceptance rate plus 2.25%. The interest rates were 6.00% and 5.55%, respectively, at December 31, 2005.

(d) The TIW credit facility bears interest at the US Index rate plus 1% per annum or, at the election of the Fund, the LIBOR rate plus 2.25% per annum. These interest rates were 8.25% and 6.64%, respectively, at December 31, 2005.

(e) The credit facilities are secured by security interests in all existing and after-acquired real and personal property of TIL and of TIW. TIL and TIW are in compliance with ratios of working capital and other covenants which include restrictions on lending and investing activities.

## 7.

## Long-Term Debt

| | Dec 31 2005 $ | Dec 31 2004 $ |
|---|---|---|
| TIW US dollar promissory note, bearing interest as described below (US$702), due July 2005 | – | 845 |
| TIW US dollar promissory note, bearing interest as described below (US$1,098), due July 2005 | – | 1,322 |
| Unsecured promissory notes, bearing interest at 10.25% per annum (US$230 at December 31, 2005 and US$295 at December 31, 2004), due December 2008 | 268 | 355 |
| | 268 | 2,522 |
| Current portion | (83) | (2,245) |
| | 185 | 277 |

The TIW promissory notes bore interest at a floating rate equal to the rate quoted from time to time by Bank of America plus 1% per annum and were secured by a floating charge on TIW assets, subordinated to the revolving credit facility (note 6).

## 8.

## Non-controlling Interest

| | Year Ended Dec 31 2005 $ | Year Ended Dec 31 2004 $ |
|---|---|---|
| Current period share of income | – | 7,112 |
| Dividends on Series B Notes | – | 91 |
| Interest on Series B Notes | – | 3,516 |
| | – | 10,719 |

The Series B Notes were 13.75%, unsecured, subordinated Series B notes issued pursuant to the note indenture between TIL and Computershare Trust Company of Canada, as trustee, dated as of November 12, 2002.

At January 1, 2004 the non-controlling interest consisted of outstanding common shares of TIL, representing a 25% interest, and series B notes. The Series B Notes and non-voting common shares in TIL were exchanged for units in the Fund on the basis of one unit for every $8.35 principal amount of Series B notes and one non-voting common share for an aggregate of 5,479,600 units on July 20, 2004 and October 13, 2004.

## 9.
## Unitholders' Equity

An unlimited number of Fund units may be issued by the Fund pursuant to the Fund's declaration of trust. Each unit is transferable and represents an equal, undivided beneficial interest in any distributions from the Fund and in the net assets of the Fund. All units are of the same class with equal rights and privileges and are not subject to future calls or assessments. Each unit entitles the holder to one vote at all meetings of unitholders. Fund unit transactions during the period November 12, 2002 to December 31, 2005 were as follows:

| | Number of Units | Gross Proceeds | Issuance Costs | Net Proceeds |
|---|---|---|---|---|
| Initial issuance of Fund Units - November 11, 2002 | 16,438,800 | 164,388 | 11,400 | 152,988 |
| Conversion of non-controlling interest - July 20, 2004 | 3,876,544 | 39,683 | – | 39,683 |
| Conversion of non-controlling interest - October 13, 2004 | 1,603,056 | 17,186 | – | 17,186 |
| Total December 31, 2005 and 2004 | 21,918,400 | 221,257 | 11,400 | 209,857 |

Fund units are redeemable at any time at the option of the holder at a price based on market value as defined in the trust agreement, subject to a maximum of $50,000 in cash redemption by the Fund in any one month. The limitations may be waived at the discretion of the Trustees of the Fund. Redemption in excess of these amounts, assuming no waiving of the limitation, shall be paid by way of pro-rata distribution of TIL securities held by the Fund.

## 10.
## Post-Retirement Benefits

(a) The Fund has four defined contribution pension plans. Contributions made by the Fund amounted to $1,600 for the year ended December 31, 2005 ($1,630 for year ended December 31, 2004). Funding obligations are satisfied upon making contributions.

(b) The Fund has one multi employer defined benefit pension plan. Contributions made by the Fund amounted to $27 for the year ended December 31, 2005 ($31 for year ended December 31, 2004). In 2005 the Fund was informed that its portion of the unfunded actuarial liability of the plan was $329. This amount was recorded as an additional pension expense in 2005.

(c) The senior executive retirement plan is unfunded. The cost expensed in the year ended December 31, 2005 is $203 ($524 in the year ended December 31, 2004). At December 31, 2005 $2,342 ($2,216 as at December 31, 2004) an estimate of the amount payable under the plan is included in accounts payable.

## 11.
## Income Taxes

Income tax obligations relating to distributions from the Fund are the obligations of the unitholders and, accordingly, no provision for income taxes on the income of the Fund has been made. A provision for income taxes is recognized for TIL and its subsidiaries, as TIL and its subsidiaries are subject to tax, including large corporation taxes. The provision for the year is divided between current and future taxes as follows:

| | Year Ended Dec 31 2005 $ | Year Ended Dec 31 2004 $ |
|---|---|---|
| Current tax expense | (2,558) | (20,807) |
| Future tax recovery | 4,726 | 5,170 |
| | 2,168 | (15,637) |

The provision for income taxes varies from the amount that would be expected if computed by applying the Canadian federal and provincial and US federal and state statutory income tax rates to the earnings before income taxes as shown in the following table:

| | Year Ended Dec 31 2005 $ | Year Ended Dec 31 2004 $ |
|---|---|---|
| Income before provision for income taxes | 17,238 | 62,848 |
| Income of the Fund subject to tax in the hands of the recipient | (24,058) | (24,282) |
| (Loss) income of subsidiary companies before income taxes | (6,820) | 38,566 |
| Tax rate | 37.4% | 37.8% |
| Expected (recovery) provision for income taxes | (2,553) | 14,578 |
| Increased (Reduced) by: | | |
| Revisions of prior period estimates | 220 | (29) |
| Expenses not deductible for tax | 233 | 213 |
| Differential tax rates on U.S. subsidiaries | 210 | 669 |
| Reduction in statutory future income tax rate | (657) | – |
| Other | 379 | 206 |
| Income tax (recovery) provision | (2,168) | 15,637 |

The components of future income tax assets and liabilities are as follows:

| | Dec 31 2005 $ | Dec 31 2004 $ |
|---|---|---|
| Future income tax assets | | |
| Other liabilities | 5,430 | 5,223 |
| Goodwill | 1,071 | 1,408 |
| Other | – | 193 |
| | 6,501 | 6,824 |
| Future income tax liabilities | | |
| Property, plant and equipment | 21,744 | 29,071 |
| Deferred costs | 128 | 153 |
| Prepaid expenses | 143 | – |
| Other | 909 | 741 |
| | 22,924 | 29,965 |
| Future income tax liability, net | 16,423 | 23,141 |

## 12.
## Contingent Liabilities, Commitments and Other Matters.

(a) Litigation and claims

The Fund is party to certain legal actions and claims, none of which individually, or in the aggregate, is expected to have a material adverse effect on the Fund's financial position, results of operations or cash flows.

(b) Commitments

The Fund and its subsidiaries have committed to rod purchases totaling $ 18,627 (US$ 15,977), zinc purchases totaling $ 1,672 (US$1,434) and gas purchases totaling $ 968 (US$ 830) at December 31, 2005.

The Fund and its subsidiaries also have various operating lease agreements with remaining terms of up to seven years with varying renewal options. Lease rental payments due under non-cancelable operating leases are as follows:

| | |
|---|---|
| 2006 | $ 3,261 |
| 2007 | 1,962 |
| 2008 | 1,176 |
| 2009 | 924 |
| 2010 | 795 |
| Thereafter | 587 |
| | $ 8,705 |

## 13.
## Segmented Information

(a) General information

The Fund operates primarily within one industry, the steel wire and fabricated wire products industry with no separately reportable business segments. The products are sold primarily to customers in the United States and Canada.

(b) Geographic information

| | Year Ended Dec 31 2005 $ | Year Ended Dec 31 2004 $ |
|---|---|---|
| Sales (i) | | |
| Canada | 79,901 | 77,909 |
| United States | 255,205 | 303,772 |
| Other | 1,466 | 1,603 |
| | 336,572 | 383,284 |

(b) Geographic information (continued)

| | Dec 31 2005 $ | Dec 31 2004 $ |
|---|---|---|
| **Property, Plant and Equipment** (ii) | | |
| Canada | 59,373 | 67,985 |
| United States | 31,512 | 41,670 |
| | 90,885 | 109,655 |

| | Dec 31 2005 $ | Dec 31 2004 $ |
|---|---|---|
| **Goodwill** (ii) | | |
| Canada | 23,463 | 24,655 |
| United States | 18,648 | 19,750 |
| | 42,111 | 44,405 |

*(i) Sales are attributed to geographic areas based on the location of customers.*

*(ii) Property, plant and equipment and goodwill are attributed to geographic areas based on the location of the subsidiary company owning the assets.*

## 14.

## Impairment/Loss on Disposal of Long-Lived Assets

During 2005 and 2004, an impairment loss was recognized on certain nail making equipment. The amount of the impairment was determined by valuing the equipment at the fair market value of the assets. These assets are included under property, plant and equipment in the Canadian and United States geographic segment.

| | Year Ended Dec 31 2005 $ | Year Ended Dec 31 2004 $ |
|---|---|---|
| Loss on disposal of long-lived assets | (499) | (785) |
| Impairment of long-lived assets | (549) | (1,648) |
| | (1,048) | (2,433) |

# Board of Trustees – Tree Island Wire Income Fund

### Jacqueline Hurlbutt
*Trustee*

Jacqueline Hurlbutt spent nearly 30 years with Banc One Capital Markets, Inc. and its predecessor companies, including the First National Bank of Chicago, in progressively senior roles. She has extensive investment and commercial banking experience in a wide variety of industries. From 1986 onwards, she was a Senior Vice-President, and most recently served as Banc One Capital Markets Head of Loan Syndications. Ms. Hurlbutt has acted as a director for several corporations and non-profit organizations.

### J. Trevor Johnstone, CPA-Inactive
*Trustee*

A Chartered Accountant, and a Certified Public Accountant (inactive), Trevor Johnstone is a founder and principal of Tricor Pacific Capital, Inc., a private equity investment firm. He participates in all aspects of Tricor's investment activity, and is an active director of each portfolio company. Mr. Johnstone acts as a director of a number of public and private companies. He was Chairman of Pacifica Papers Inc. during that company's billion-dollar merger with Catalyst Paper Corporation, and now sits on the board of the combined entity. Mr. Johnstone is the Chairman of the Board of the Vancouver Coastal Health Authority, which is the largest healthcare authority in Canada.

### Kevin Layden
*Trustee*

As President and Chief Operating Officer of Best Buy Canada Ltd., Kevin Layden is responsible for both the Future Shop and Best Buy brands in the Canadian marketplace. Mr. Layden joined Best Buy Canada Ltd. (then Future Shop Ltd.) in 1997 and was named President in 1999. Prior to joining Best Buy Canada Ltd., Mr. Layden had a highly successful 17-year career with Circuit City Stores Inc., the second largest consumer electronics retailer in the United States. While at Circuit City, he held a number of increasingly senior positions. His last position with Circuit City was Assistant Vice President and General Manager, New York.

### Theodore A. (Ted) Leja
*Trustee*

Ted Leja is President and Chief Executive Officer of Tree Island Industries Ltd. He joined the company in 1992, bringing significant experience in the steel industry. Mr. Leja previously served as President of the Bar, Rod and Wire division of Bethlehem Steel Corporation (1984-1992), and President of Georgetown Texas Steel Company (1980 to 1984), then a part of the Korf Steel complex. From 1977 to 1980, he was instrumental in the start-up of the Raritan River Steel Company. Prior to that, he spent 10 years with North Star Steel Company (part of Cargill, Inc.) in a number of positions, ultimately becoming its President.

### Robert L. Phillips
*Trustee*

Bob Phillips was previously President and Chief Executive Officer of the BCR Group of Companies. The BCR Group is comprised of a portfolio of companies providing rail transportation, deep-sea terminal and related services in British Columbia. Through a distinguished career, Mr. Phillips has served as Vice-President, Business Development and Strategy of MacMillan Bloedel Ltd., President and Chief Executive Officer of Dreco Energy Services Ltd. and Vice-President of Husky Oil Limited. Mr. Phillips is also a lawyer specializing in corporate and securities law. He is a former partner of Blake, Cassels, and Graydon, and the cofounder of a leading Edmonton law firm, Cruickshank Phillips.

### Keith Purchase
*Trustee*

Keith Purchase is a corporate director based in Greater Vancouver. Prior to his retirement in 1999, he was Executive Vice-President and Chief Operating Officer of MacMillan Bloedel. Previously, Mr. Purchase was President and CEO of TimberWest Forest Products and Managing Director of Tasman Pulp and Paper in New Zealand. He is a director of Art In Motion Income Fund and Integrated Paving Concepts Ltd. and Chairman of the Board of the Fraser Health Authority, and Catalyst Paper Corporation.

### Roderick R. Senft
*Chairman and Trustee*

Rod Senft is a founder and principal of Tricor Pacific Capital Inc., a private equity investment firm. He participates in all aspects of Tricor's investment activity, and is the Chairman of the Board of a number of Tricor portfolio companies. Mr. Senft acts as a director of a number of public and private companies. Until 1993, Mr. Senft was a partner of Davis & Company, one of Vancouver's leading law firms. Prior to joining Davis & Company in 1978, he was Secretary and General Counsel for Cargill (Canada) Inc. Before joining Cargill, he practiced law in Winnipeg, Manitoba with Thompson, Dorfman, Sweatman.

## Management – Tree Island Industries Ltd.

### Theodore Leja
*President and Chief Executive Officer*

Ted Leja joined Tree Island in 1992 as President and Chief Operating Officer. Prior to joining the Company, he was President of the Bar, Rod and Wire division of Bethlehem Steel Corporation. From 1980 to 1984, Ted served as President of Georgetown Texas Steel Company, then a part of the Korf Steel complex. From 1977 to 1980, he was instrumental in the start up of the Raritan River Steel Company. Prior to that, he spent 10 years with North Star Steel Company (part of Cargill, Inc.) in a number of positions, ultimately becoming its President.

### Garry Flesher
*Vice President, Finance*

Garry Flesher joined Tree Island in 1982 and became Vice President of Finance in 1991. He has over 30 years of experience in finance and accounting, and is a Certified Management Accountant.

### Gerald Gregoire
*Vice President of Sales and Marketing*

Gerald Gregoire joined Tree Island in 1988 and has been Vice President of Sales and Marketing since 1992. Prior to joining the Company, Gerald served as Vice President of Marketing at Irving Industries Ltd. in Calgary, Alberta.

### Stephen Ogden
*Vice President of Operations*

Stephen Ogden came to Tree Island in 1996 from Weiser Lock International, a division of Masco Industries, where he was Vice President of Engineering. He has over 30 years of operations, manufacturing, tooling, and engineering experience. Stephen is a member of both the Institute of Mechanical and Production Engineers and the Society of Manufacturing Engineers. He received his MBA from Simon Fraser University in 1991.

### Rebecca Kalis
*President, Tree Island Wire USA*

Rebecca Kalis was previously the Vice President and General Manager of K-Lath and Chief Operating Officer of Halsteel. Prior to joining K-Lath, she was General Manager of Air Nail (a collated nail manufacturer in California), and prior to that was a consultant in the Human Resources and Manufacturing fields. She received her MBA from UCLA in 1977 and has an undergraduate degree in Economics from Hollins College.

## Unitholder Information

Mailing Address
Tree Island Wire Income Fund
P.O. Box 50
New Westminster, B.C.
Canada V3L 4Y1

Corporate Head Office
Tree Island Industries Ltd.
3933 Boundary Road
Richmond, B.C
Canada V6V 1T8

Website
www.treeisland.com

Registrar and
Transfer Agent
Computershare
Investor Services Inc.

Auditors
Deloitte & Touche LLP
Vancouver, B.C.

Market Information
Units Listed:
Toronto Stock Exchange
Trading Symbol: TIL.UN

Investor Relations
Garry Flesher
Vice President, Finance
604-523-4512
email: gflesher@treeisland.com

Annual General Meeting
The Annual General Meeting of
Tree Island Wire Income Fund
will be held at 1:30 p.m. on
Thursday, May 11, 2006
at The Fairmont Waterfront Hotel
900 Canada Place Way
Vancouver, B.C.

# Tree Island Wire Income Fund

PO Box 50, New Westminster, B.C. V3L 4Y1
Phone: 604.524.3744
Fax: 604.524.2362

April 4, 2006

Marianna Lacika Winspear
Winspear Business Reference Library
Rm. 1-18
Business Building
University of Alberta
Edmonton, AB T6G 2R6

Dear Marianna

Thank you for your interest in the Tree Island Wire Income Fund.

Tree Island is the leading steel wire and fabricated wire products manufacturer in the Western United States and Western Canada, with eight plants located in British Columbia, California, Washington and Georgia.

Enclosed please find a copy of our 2005 Annual Report. If you have any questions, please do not hesitate to contact me directly, either by email at gflesher@treeisland.com, or by phone at 604.524.3744 ext.4512.

Thank you again for your interest in Tree Island.

Sincerely yours,

Garry Flesher
Vice-President, Finance

*Tree Island is listed on the Toronto Stock Exchange under the symbol TIL.UN.*